

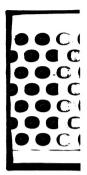


FINANCIAL STATEMENTS AS OF JUNE 30, 1990 AND 1989 TOGETHER WITH AUDITORS' REPORT

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# ARTHUR ANDERSEN & Co. St. Louis, Missouri

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Missouri Lottery Commission:

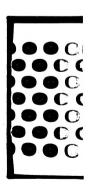
We have audited the accompanying balance sheets of the Missouri Lottery June 30, 1990 and 1989, and the related statements of revenues, expende and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Lottery's management responsibility is to express an opinion on these financial statements our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit obtain reasonable assurance about whether the financial statements are material misstatement. An audit includes examining, on a test basis, supporting the amounts and disclosures in the financial statements. As also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonab for our opinion.

In our opinion, the financial statements referred to above present fai all material respects, the financial position of the Missouri Lottery June 30, 1990 and 1989, and the results of its operations and its cash for the years then ended in conformity with generally accepted account principles.

athur lunderen & Co.

St. Louis, Missouri, October 24, 1990



# BALANCE SHEETS AS OF JUNE 30, 1990 AND 1989

<b>:</b>		
	1990	1989
ASSETS		•
CURRENT ASSETS:		• • • • • • • • • • • • • • • • • • • •
Cash	\$18,578,131	\$19,270,411
Accounts receivable, net	2,037,543	2,294,540
Current portion of investments	967,333	-
Accrued interest and other receivables	13,150	25,452
Total current assets	21,596,157	21,590,403
INVESTMENTS, less current portion	8,497,374	-
PROPERTY AND EQUIPMENT, net	4,106,805	5,095,551
Total assets	\$34,200,336	\$26,685,954
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LIABILITIES AND RETAINED E	ARNINGS	
CURRENT LIABILITIES:		
Accounts payable		\$ 2,190,547
Accrued prize liabilities	6,565,375	4,271,109
Due to General Revenue Fund	6,238,649	10,468,387
Other accrued liabilities	670,715	
Current portion of deferred grand prize annuities payable	967,333	-
Total current liabilities	16,462,111	17,366,452
DEFERRED GRAND PRIZE ANNUITIES PAYABLE, less current portion	8,497,374	-
OTHER DEFERRED LIABILITIES	645,372	724,023
RETAINED EARNINGS	8,595,479	8,595,479
Total liabilities and retained earnings	\$34,200,336	\$26,685,954 ========

The accompanying notes are an integral part of these balance sheets.

# STATEMENTS OF REVENUES, EXPENDITURES AND RETAINED EARNINGS

# FOR THE YEARS ENDED JUNE 30, 1990 AND 1989

	1990	1989
OPERATING REVENUES:		
Instant ticket sales	\$114,533,882	\$109,754,365
On-line ticket sales	107,053,182	89,448,017
Pull-tab ticket sales	1,780,083	
Total operating revenues	223,367,147	199,202,382
OPERATING EXPENDITURES:		
Instant prize expense	62,590,775	55,993,573
On-line prize expense	53,526,591	44,155,871
Pull-tab prize expense	1,157,054	-
Instant retailer commissions and incentives	6,524,041	6,077,857
On-line retailer commissions and incentives	6,091,749	5,305,969
Pull-tab retailer commissions and incentives	152,280	-
Cost of tickets sold	6,153,692	4,526,032
Wages and benefits	5,362,531	4,887,344
Advertising and promotions	7,735,377	8,079,988
Other general and administrative	5,334,401	5,043,296
Total operating expenditures	154,628,491	134,069,930
Operating revenues over expenditures	68,738,656	65,132,452
NONOPERATING REVENUES:		
Interest income	1,800,020	1,684,650
Other	152,934	240,335
Total nonoperating revenues	1,952,954	1,924,985
Income before operating transfers	70,691,610	67,057,437
OPERATING TRANSFERS TO GENERAL REVENUE FUND	(70,691,610)	(68,898,463)
ADDITIONAL LEGISLATIVE TRANSFERS	-	(28,000,000)
Excess of expenditures and transfers over revenues	_	(29,841,026)
RETAINED EARNINGS AT BEGINNING OF YEAR	8,595,479	38,436,505
RETAINED EARNINGS AT END OF YEAR	\$ 8,595,479	

The accompanying notes are an integral part of these statements.

# STATEMENTS OF CASH FLOWS

# FOR THE YEARS ENDED JUNE 30, 1990 AND 1989

CASH FLOWS PROVIDED BY (USED FOR) OPERATING	1990	1989
ACTIVITIES:  Excess of expenditures and transfers over revenues  Adjustments to reconcile the excess of expenditures and transfers over revenues to net cash used for operating activities—  Depreciation  Change in assets and liabilities— Decrease (increase) in accounts receivable, net  Decrease in accrued interest and other receivables  Decrease in instant lottery ticket	<b>\$</b> -	\$(29,841,026)
	1,148,076	1,105,429
	256,997	(888,433)
	12,302	231,957
inventories Increase in accounts payable and other	-	544,279
accrued liabilities	63,798	545,100
Increase in accrued prize liability	2,294,266	215,238
Increase in deferred grand prize annuities payable	•	213,236
(Decrease) increase in due to General	9,464,707	-
Revenue Fund (Decrease) increase in deferred liabilities	(4,229,738)	3,072,134
	(78,651)	724,023
Net cash provided by (used for) operating activities	8,931,757	(24,291,299)
CASH FLOWS FROM INVESTING ACTIVITIES: Purchase of zero coupon bonds Additions to property and equipment, net of retirements	(9,464,707)	_
	(159,330)	(750,528)
Net cash used for investment activities	(9,624,037)	(750,528)
NET DECREASE IN CASH	(692,280)	(25,041,827)
CASH, beginning of year	19,270,411	44,312,238
CASH, end of year		\$ 19,270,411

The accompanying notes are an integral part of these statements.

#### NOTES TO FINANCIAL STATEMENTS

#### JUNE 30, 1990 AND 1989

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Missouri Lottery (the Lottery) is accounted for as a proprietary type enterprise fund and is a component unit of the State of Missouri. The financial statements are prepared in accordance with generally accepted accounting principles on the accrual basis of accounting and conform with practices generally followed in the gaming industry.

#### Revenue Recognition

Sales of instant lottery tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances have been established for estimated tickets to be returned by retailers of \$571,000 and \$421,000 at June 30, 1990 and 1989, respectively.

Sales of pull-tab tickets are made to licensed retail sales outlets with no right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player.

Sales of on-line lottery tickets are generated by the semiweekly "LOTTO" and "Lotto America" and the daily "PICK 3" games. Sales of lottery tickets are made through licensed retail sales outlets via on-line terminals maintained by the retailers. Ticket sales are recognized at the time the player purchases a ticket from the retailer.

## Investments and Deferred Grand Prize Annuities Payable

Prior to March 1990, the Lottery purchased annuity contracts from selected insurance companies to fund "LOTTO" grand prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying balance sheets.

In March 1990, to fund future payments under subsequent prize claims, the Lottery began purchasing U.S. Treasury zero coupon bonds with maturities approximating deferred grand prize annuity installment amounts and due dates. The securities purchased are held in safekeeping by the Federal Reserve Bank. The investments in these securities are carried at cost, adjusted for the accretion of discounts based on the purchase yield and the maturity date. Discount accreted on these investments is not recognized as revenue of the Lottery but is credited to deferred grand prize annuities payable. These securities are not subject to trading and are intended to be held to maturity.

#### Prizes

Expenditures for instant lottery ticket and pull-tab lottery ticket prizes are recorded based upon the unique predetermined prize structure for each game and are accrued as tickets are sold to the retailer.

Expenditures for on-line lottery ticket prizes are recorded based on 50% of on-line lottery ticket sales. Prior to the passage of an amendment to statutory requirements (see Note 2) that became effective in September 1988, prizes were recorded based on a 45% statutory requirement as the maximum prize percentage.

The minimum grand prize amount for the semiweekly "LOTTO" game is \$1,000,000. Any prize that remains unclaimed for one year from the date of the on-line game drawing is used to fund future prize pools.

#### Retailer Fees

Licensed retailers are charged an annual fee for the right to sell lottery tickets. Additionally, certain retailers pay an annual fee in lieu of obtaining an insurance bond. Such fees are maintained in a reserve fund to offset uncollectible accounts receivable from retailers. This reserve fund approximated \$363,000 and \$319,000 at June 30, 1990 and 1989, respectively, and is reflected as a reduction of accounts receivable on the accompanying balance sheets.

#### Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated life of the related asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period.

#### Due to General Revenue Fund

Under current statutes, all income before operating transfers of the Lottery, as described in the accompanying income statement, accrues to the benefit of the General Revenue Fund. Prior to September 1988, the liability to the General Revenue Fund was computed as 45% of sales. Operating transfers to the General Revenue Fund are made monthly and are based on estimated income before operating transfers. A portion of the liability to the General Revenue Fund equal to the net book value of capital additions after September 1, 1988, is not subject to current operating transfers.

#### 2. STATUTORY REQUIREMENTS:

The constitutional amendment and law provides that a minimum of 45% of the money received from the sale of lottery tickets shall be allocated to prizes. The costs of operating the Lottery, including all commissions to retailers, promotional costs, and all other administrative expenditures, are appropriated by the General Assembly of the State of Missouri.

The Lottery receives certain services for no charge from other Missouri state government agencies. Legal and investigative services are provided by the Attorney General's office and the Missouri State Highway Patrol, respectively. The Office of Administration provides certain services to process expenditures and payroll for the Lottery.

### 3. ON-LINE TICKET SALES:

On-line ticket sales consist of the following:

	•	1990	1989
LOTTO Lotto America PICK 3	(Missouri Megabucks)	\$ 49,079,208 38,007,956 19,966,018	\$50,236,771 22,816,977 16,394,269
		\$107,053,182 ========	\$89,448,017

#### 4. CASH:

Cash consists of funds on deposit with the State Treasurer and banks. The cash on deposit with the State Treasurer is pooled with other Missouri State funds and is fully secured by the depository institutions holding the funds.

#### 5. INVESTMENTS:

Investments as of June 30, 1990, are as follows:

Cost at date of purchase Plus- Accreted discount	\$9,268,085 196,622
	9,464,707
Less- Current portion	(967,333)
Long-term investments	\$8,497,374

The market value of these investments at June 30, 1990, was \$9,473,000. The maturity value of securities held at June 30, 1990, was \$19,418,000.

# 6. PROPERTY AND EQUIPMENT:

Property and equipment, net consists of the following:

. •	1990	1989
Land Building Computers and related software Autos Equipment	\$ 184,512 2,505,721 2,090,472 999,120 2,361,353	\$ 184,512 2,505,721 2,013,402 1,337,736 2,345,228
	8,141,178	8,386,599
Less- Accumulated depreciation	4,034,373	3,291,048
	\$4,106,805 =======	\$5,095,551

#### 7. PENSION PLAN:

The Lottery participates with other state agencies in the Missouri State Employees Retirement Plan. The plan is a multiagency defined benefit plan that covers substantially all employees. The Lottery's contributions to the plan in fiscal 1990 and 1989 were \$416,434 and \$372,282, respectively.

#### 8. LEASES:

The Lottery's regional facilities are held under lease agreements that originally expired June 30, 1989, and have been renewed under options available for three to five additional one-year periods. Annual rent expense for these facilities totaled \$143,520 and \$141,444 in fiscal 1990 and 1989, respectively.